



STATE OF DELAWARE


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MEMORANDUM

TO: The Chair and Members of the Commission

FROM: Lisa B. Driggins, Public Utilities Analyst 

DATE: May 29, 2018

SUBJECT: IN THE MATTER OF THE APPLICATION OF ARTESIAN WASTEWATER MANAGEMENT, INC. FOR APPROVAL PURSUANT TO 26 DEL. C. § 215 FOR THE ISSUANCE OF LONG-TERM DEBT OBLIGATION (FILED MAY 15, 2018) – PSC DOCKET NO. 18-0328

Application:

On May 15, 2018, Artesian Wastewater Management, Inc. (“AWMI” or “Company”) filed an application (the “Application”) requesting approval from the Delaware Public Service Commission (“PSC” or “Commission”): (1) to enter into a Master Loan Agreement between AWMI and CoBank, ACB (“CoBank”) in order to facilitate the making of loans between the parties (“Agreement”); (2) to enter into a loan in the aggregate principal amount of up to \$7,500,000 in accordance with the terms of Supplement 1 of the Agreement and the related Commitment Letter; (3) to enter into a loan in the aggregate principal amount of up to \$4,500,000 in accordance with the terms of Supplement 2 of the Agreement and the related Commitment Letter; and (4) permission to defer the issuance expenses for review during the Company’s next rate application along with cost of capital calculations.

Proposed use of Proceeds:

AWMI’s purpose for the Supplement 1 loan is to provide long-term financing for approximately 60% of the cost to construct a pipeline between the properties of Allen Harim Foods, LLC and Artesian’s Northern Sussex Water Recycling Facility (“ANSWRF”).

AWMI’s purpose of the Supplement 2 loan is to provide long-term financing for the expansion and upgrade of the Stonewater Wastewater Treatment Facility (“Stonewater”). (ANSWRF and Stonewater are together referred to as the “Loans”).

Description of Debt:

As discussed above, AWMI and CoBank will enter into the Agreement in order to facilitate the making of loans between each party. Loans issued subject to the Agreement shall be evidence

by a supplemental agreement which sets forth the specific terms and conditions for each future loan.

Pursuant to Supplement 1, AWMi and CoBank will enter into a long-term debt obligation to finance the construction of a pipeline between Allen Harim Foods, LLC and the ANSWRF. The ANSWRF loan will be in a principal amount of up to \$7,500,000. The loan has been structured so that initially the Company can drawdown proceeds as project costs are incurred. During the drawdown period, interest will accrue at Cobank's weekly quoted rate, currently 3.93%. Once the drawdowns for the project are completed, the loan proceeds will be converted into a long-term debt obligation as evidenced by the promissory note included with Supplement 1.

Pursuant to Supplement 2, AWMi and CoBank will enter into a long-term debt obligation to finance the expansion and upgrade of Stonewater. The Stonewater loan will be in a principal amount of up to \$4,500,000. The loan has been structured so that initially the Company can drawdown proceeds as project costs are incurred. During the drawdown period, interest will accrue at CoBank's weekly quoted rate, currently 3.93%. Once the drawdowns for the project are completed, the loan proceeds will be converted into a long-term debt obligation as evidenced by the promissory note included with Supplement 2.

Regulatory Asset:

Artesian stated they expect to incur approximately \$75,000 of costs to issue both long term debt obligations. As part of this application, Artesian is requesting that all issuance costs be recorded as a regulatory asset and amortized over the life of the loans.

Staff's Recommendation:

Staff reviewed the Company's Application for compliance with the requirements of 26 *Del. C.* § 215 and 26 *Del. Admin C.* § 1002 – Part D and submits that issuance of long-term debt is made in accordance with law, for a proper purpose and is consistent with the public interest. Therefore, Staff respectfully recommends that the Commission approve the Application subject to the conditions that the Company (i) may not construe this approval as ratemaking treatment for future filings; (ii) within 30 days of the date of the closing of the Loan the Company must file copies of its fully-executed Loan Agreement and any other related documents necessary to complete this transaction; (iii) Section 3.1.9 requires an Opinion of Counsel with respect to the legality of the proposed issuance of long-term debt, so within 15 days of the date of closing the Company will provide the third-party legal opinion letter; and (iv) permission to defer the issuance expenses for review during the Company's next rate application along with cost of capital calculations.